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SUBJECT: UNCITRAL: SECURED TRANSACTIONS WORKING GROUP ADDRESSES
INTELLECTUAL PROPERTY

SUMMARY

¶1. (U) UNCITRAL Working Group VI (Secured Transactions) at its 2008 session in Vienna, October 20-24, continued its work on the preparation of an annex to the 2007 UNCITRAL Legislative Guide on Secured Transactions (hereafter "the Guide") on security rights in intellectual property (IP). The United Nations Commission on International Trade Law (UNCITRAL) at its 2007 plenary meeting decided that the Working Group should undertake work on security rights in intellectual property in response to the need to provide specific guidance to States as to the appropriate coordination between secured transactions law as reflected in the Guide and intellectual property law. The U.S. delegation was headed by Michael Dennis (L/PIL, with Rachel Wallace (EB) serving as the alternate head of delegation and Professor Neil Cohen (Brooklyn Law School) serving as an expert adviser.

¶2. (U) The Working Group made good progress at the session and it was able to complete a first reading of the entire draft Annex. At the conclusion of the session, the Working Group was of the view that it should be able to complete its work on the draft Annex at its fall 2009 session or at its early spring 2010 session. The Working Group would then be in a position to submit the Annex to the Commission for final approval and adoption at its 2010 session. Several controversial issues remain to be resolved.

¶3. (U) The most problematic issue concerns the treatment of licensees in the ordinary course. Consistent with the Guide and U.S. law, the draft annex provided that non-exclusive licensees who obtain licenses in the ordinary course of business, take free of a prior security interest created by the licensor. Nonetheless, IP stakeholders and delegates from some of the European countries argued that this concept of ordinary course does not exist in IP law and therefore has no place in the Annex. The USDEL suggested that the result protecting mass market consumer licenses was more important than the formulation of the legal rule and that the Annex might simply state that: "The law should provide that a non-exclusive licensee (that obtains its license in a mass-market transaction available to all) from a rights holder who has previously granted a security right in the licensed intellectual property may enjoy its rights notwithstanding the security right so long as the licensee fulfills all of its obligations on the license contract." The IP stakeholders and some states, however, continued to oppose even this limited formulation of the rule.

¶4. (U) Another difficult conceptual issue concerned the choice of law for security rights in intellectual property. Two alternate rules remain under consideration. U.S. IP stakeholders, along with the European member states, argue that the lex protectionis (following IP law of the state which created the IP property right)

would provide the best result. Other states, such as Canada, argue that the law of the grantor's location (the general rule for intangibles under the Guide) would provide for a best result since it would result in the application of a single law to the creation, third-party effectiveness, priority and enforcement of a security right.

15. (U) Another unresolved issue concerns the impact of insolvency on a security right in intellectual property. The USDEL offered two proposals concerning the issue which were adopted by the Working Group and included in the report of the session. The Working Group VI further decided that these proposals should be referred to Working Group V (insolvency) and that, subject to further consideration by both working groups, the proposals should be included in the draft Annex. The WG VI also agreed that the fall 2009 sessions of Working Groups V and VI should be scheduled in a way that would make possible the holding of a joint session, should such a joint session prove to be necessary.

SCHULTE